

# TESTIMONY OF Chip Gengras

March 7, 2011

## Joint Committee on Finance, Revenue & Bonding

### SB 1007 AAC THE GOVERNOR'S RECOMMENDATIONS ON REVENUE

Good Afternoon Chair persons Senator Daily Representative Widlitz, members of the committee - my name is Chip Gengras. I am the president of the Gengras Auto Group, a third generation auto dealership that employees over 300 people in the state of Connecticut. I am here to testify in opposition to sections of SB 1007, the Governors Recommendations on Revenue.

Specifically, I am opposed to the provisions of the bill that would repeal the exemption on the value of a trade-in vehicle and impose an additional 3% new sales tax on top of existing sales tax and other proposals that would make Connecticut auto dealers less competitive with our neighboring states, drive down car sales and sales tax revenue and result in significant job loss in Connecticut's 245 new car dealerships.

I am here as a member of the board of CARA and speaking for the 245 new car auto dealerships in this state and the more than 12,500 people we employ in good jobs that on average pay \$54,000 with health and retirement benefits. Our industry provides hundreds of millions of dollars in state sales, payroll and business taxes to the state and hundreds of millions more in local property taxes.

Three years ago Connecticut had 325 New Car dealers and 16,000 employees working at new car dealerships. We sold 9 BILLION dollars worth of NEW cars in this state. As you well know, in 2008 the national credit crisis hit making it difficult to get affordable credit for consumers and driving up the cost of credit when it was available. Since that time we have lost 80 dealerships and about 2500 jobs and sales have drop to around \$6 billion **a loss of nearly 3 billion in sales**. Auto retailing is very dependent on credit because almost all consumers finance the purchase of a car.

Repealing the sales tax exemption for the trade-in value of a car essentially drives up the cash needed for the new car and the amount that must be financed for a car. It reduces the amount a consumer has available to use for a down payment, and thus makes getting a loan more difficult. We estimate this proposal will raise the average cost of a loan on a new car by more than \$1000 over the life of the loan. It is also fundamentally unfair as well because it taxes the car twice - once when you originally buy it and once when you trade it in.

The impact of this new expanded tax on a trade-in will create Connecticut's own credit crisis and just as the national crisis did in 2008-early 2010 it will depress sales, reduce sales tax and cause more layoffs in our industry. We estimate that the state will lose in excess of \$91,000,000 in sales tax on new car sales

alone not counting the huge used car market. Additionally, as consumers cross the border to NY, Massachusetts and Rhode Island to take advantage of easier credit terms in those states that still have the trade in credit; we estimate that Connecticut stands to lose an additional \$21,000,000 million dollars in sales tax on the service and parts business. This will occur because in our industry, consumers almost always service their vehicles at the dealership where they purchased the car and unfortunately for Connecticut if this proposal passes this service work will be at out of state dealerships.

I do not have to explain to you, that as car dealers lose business in sales, service and parts it will result in job loss at our dealerships. Again, we estimate that the 245 dealerships in our state will lose some 735 jobs costing the state \$1.7 million dollars in lost income taxes and approximately 21 million dollars in unemployment benefits costs for those workers.

THIS IS NOT JUST IDLE TALK AND STATISTICS THESE ARE REAL JOBS AND REAL LOSSES. History bears this out both in 2008-2010 and when the state of Maine adopted this same proposal some years ago. Sales dropped, state revenue dropped drastically and dealerships faced layoff. Fortunately, Maine called a special session once they realized the mistake and repealed the repealer. This is bad policy. It will not help you balance the budget and it will not help our very fragile economic recovery.

I urge you to reject this proposal.